

ELECTRONIC FUND TRANSFERS

OVERVIEW

The Electronic Fund Transfer Act (EFTA) provides a basic framework establishing the rights, liabilities, and responsibilities of participants in electronic fund transfer (EFT) systems. The Federal Reserve Board's Regulation E provides protection of the rights of consumers in their dealings with these systems.

Examination Objective(s)

The objectives of the examination are to:

Determine whether the financial institution offers EFT services

Determine whether the financial institution's policies and practices are in compliance with the Federal Reserve Board's Regulation E

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DEFINITION(S)

Access Device

A card, code, or other means of access to a consumer's account, or any combination thereof, that may be used by the consumer for the purpose of initiating electronic fund transfers.

Refer to Section 205.2(a)(2) of Regulation E to determine when an access device becomes an accepted access device.

DEFINITION(S)
(cont'd)

Account

An account is a consumer checking, savings, share or money market account held by a financial institution and established by the consumer primarily for personal, family, or household purposes.

Business Day

Any day on which the offices of the consumer's financial institution are open to the public for carrying on substantially all business functions.

For further clarification, see the Federal Reserve Board's EFTs Official Staff Interpretations, No. EFT-2.

**Electronic Fund
Transfer (EFT)**

An electronic fund transfer is a transaction initiated through an electronic terminal, telephone, computer, or magnetic tape that instructs a financial institution to either credit or debit a consumer's asset account.

Examples of EFT services may include:

Automated teller machine (ATM) transactions

Telephone bill payment services

Point-of-sale (POS) terminal transfers in retail stores

Preauthorized transfers from or to a consumer's account, for example, direct deposit of Social Security payments

NOTE: Certain electronic fund transfers, such as any wire transfer of funds for a consumer through the Federal Reserve Communications System or other similar network that is used primarily for transfers between financial institutions or between businesses, are not covered by the EFTA.

Refer to Section 205.3 of Regulation E for a complete listing of exempt transactions.

**Electronic
Terminal**

An electronic device, other than a telephone operated by a consumer, through which a consumer may initiate an electronic fund transfer. The term includes, but is not limited to, point-of-sale terminals, automated teller machines, and cash dispensing machines.

An electronic fund transfer authorized in advance to recur at substantially

DEFINITION(S)
(cont'd)

regular intervals.

**Preauthorized
Electronic Fund
Transfer**

**Unauthorized
EFT**

"Unauthorized electronic fund transfer" means an electronic fund transfer from a consumer's account initiated by a person other than the consumer without actual authority to initiate the transfer and from which the consumer receives no benefit. The term does not include any electronic fund transfer (1) initiated by a person who was furnished with the access device to the consumer's account by the consumer, unless the consumer has notified the financial institution involved that transfers by that person are no longer authorized, (2) initiated with fraudulent intent by the consumer or any person acting in concert with the consumer, or (3) that is initiated by the financial institution or its employee.

**EXAMINATION
PROCEDURES**

Evaluate for Compliance with Regulation E	
1.	Determine if access devices contain credit privileges in order to evaluate compliance with applicable portions of Truth in Lending. (205.5(c))
2.	For each type of EFT service provided, review items given to customers at the time an account is opened, or prior to the first EFT transaction, to determine that all required disclosures are furnished. (205.7)
3.	If the institution has changed the terms or conditions since the last examination that required a written notice to the customer, determine that the proper notice was provided in a timely manner. (205.8(a))

**EXAMINATION
PROCEDURES
(cont'd)**

4. Obtain and review copies of the following:

Disclosure forms
Account agreements
Procedural manuals and written policies
Merchant agreements
Automated teller machine receipts and periodic statements
Error resolution statements/files
Form letters used in case of errors or questions concerning an EFT
Any agreements with third parties allocating compliance responsibilities

5. Test for compliance with written policies and internal controls while performing the examination procedures.

6. Review a sample of periodic account statements to determine that they contain sufficient information for the consumer to adequately identify transactions and that they otherwise comply with Regulation E. (205.9)

7. Review consumer complaints regarding EFT transactions to determine compliance with the error resolution procedures and to isolate any apparent deficiencies in the institution's operations. (205.11)

8. Review policies regarding liability for unauthorized electronic transfers. (205.6)

9. Ascertain whether these policies comply with the regulation and determine whether they are applied in practice. (205.11)

Refer to the definition of an unauthorized EFT under the Definitions area in this section of the manual.

10. Review policies regarding issuance of access devices. Ascertain whether these policies comply with the requirements of the regulation. Interview responsible personnel to determine whether the financial institution appropriately applies such policies in practice. (205.5)

**EXAMINATION
PROCEDURES
(cont'd)**

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| 11. Review policies regarding preauthorized debits and credits. Ascertain whether these policies comply with the requirements of the regulation and determine whether they are applied in practice. (205.10) |
| 12. Determine that the financial institution does not require compulsory use of EFTs, except as authorized. (EFTA 913) |
| 13. Determine that the financial institution is maintaining records of compliance for a period of not less than two years. (205.13(c)) |

**WORKPAPER
STANDARDS**

Standardized workpapers must be completed when reviewing compliance with the EFTA. Refer to the Standardized Workpapers Appendix in this manual.



**FDIC LAW,
REGULATIONS
, & RELATED
ACTS**

Applicable Rules

Consumer Credit Protection Act, Title IX – Electronic Fund Transfers,
Volume 2, Page 6625

Federal Reserve Board’s Electronic Fund Transfers Official Staff
Interpretations, Volume 2, Page 7389

Regulation E (Part 205), Volume 2, Page 7361

**Advisory
Opinions**

Treatment of Electronic Debits Arising from Use of Automated Teller
Machine Network and/or Debit Card (Point of Sale) Network When a
Participating Bank Closes Prior to Final Settlement, Letter #87-59, Volume 1,
Page 4296

Users’ Rights Under the Electronic Funds Transfer Act in the Event of Bank
Error Regarding an Electronic Wire Transfer, Letter #94-21, Volume 1, Page
4856

**Statements of
Policy**

Policy Statement to Address the Problem of the Use of Large-Value Funds
Transfers for Money Laundering, Volume 2, Page 5371



**DCA
MEMORANDA**

Electronic Fund Transfer Act: Revision of Regulation E and Examination Procedures, Transmittal # DCA-95-046, dated 11/2/95

General Workpaper Standards and Standardized Workpapers, Transmittal # DCA-96-003, dated 1/19/96

Pre-Examination Planning (PEP) Procedures, Transmittal No. DCA-96-013, dated 1/31/96

**FINANCIAL
INSTITUTION
LETTERS (FIL)**

Interagency Statement Addressing Risks from Switches and Network Services in Retail EFT Systems, Letter #30-93, dated 4/29/93